National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office

Progress on public bodies reform

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National Audit Office

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Progress on public bodies reform

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

4 February 2014

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This study examines the progress that has been made on the government's 2010 Public Body Reform Programme, and whether the expected benefits of the Programme have been realised through rationalisation of bodies and their functions to achieve value for money.

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Contents

The National Audit Office study team consisted of:
Jonathan Bayliss, Laura Bruce, Jack Cook, Ian Derbyshire, Stephanie Ridal, Tom Wallace and Paul Wright-Anderson, under the direction of Keith Davis.

This report can be found on the National Audit Office website at www.nao.org.uk/2014-public-bodies

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

£723m	£785m	306	156
NAO estimate (based on audited accounts) of reduction in administrative spending by public bodies in 2012-13 compared with 2010-11	Cabinet Office figure (based on departmental returns) for reduction in administrative spending by public bodies in 2012-13 compared with 2010-11	forecast reduction in number of arm's-length bodies as a result of the Public Bodies Reform Programme	non-departmental public bodies to be reviewed 2011-12 to 2013-14

On the 2010 reforms

904	bodies assessed during the 2010 review
598	assessed bodies expected to remain by 2015
283	bodies removed by abolition or merger through the Public Bodies Reform Programme (by 31 December 2013), representing 92 per cent of the expected total reduction in bodies

On triennial reviews

30	reviews of 77 non-departmental public bodies (NDPBs) completed by 31 December 2013
34	reviews of 47 NDPBs under way or partially completed
32	NDPBs due to be reviewed but not yet announced
450	NDPBs expected to be reviewed 2014-15 to 2016-17
4-5	months expected to carry out a triennial review
8	months taken on average to carry out a review

Summary

1 In our previous report on central government reorganisation we acknowledged the scale of the Public Bodies Reform Programme (the Programme), which aims to simplify the public bodies landscape to improve accountability and to achieve administrative savings.[1] However, we concluded that the Cabinet Office and departments had not done enough by that (early) stage to secure value for money. This was primarily because they had not defined the expected accountability benefits, and they were not able to show the reductions in spending expected as a direct result of the reforms.

2 This report examines the progress made since our previous report. It focuses on the simplification of the public bodies landscape, the achievement of benefits and the introduction of triennial reviews of non-departmental public bodies (NDPBs) that remain after the reforms.

Key findings

3 The Cabinet Office and departments have made good progress in reducing the number of public bodies, representing a major simplification of the public bodies landscape. By 31 December 2013, 283 (92 per cent) of the planned reduction of 306 in the number of bodies through abolition or merger had been completed, reducing the total number of public bodies remaining in the Programme to 621.[2] Some of the reforms proposed in 2010 have been delayed due to unexpected policy developments or legal challenges (paragraphs 1.7 to 1.10).

4 Even after all planned reforms have been completed, the public bodies landscape will still be complex. Individual departments adopt differing arrangements for organising their 'arm's-length' functions (conducted outside of traditional departments), and there is still a lack of clarity and consistency across departments about which models best suit certain types of function. The Cabinet Office intends to provide greater consistency across departments and a clear rationale for bodies' classification (paragraphs 1.13 to 1.14).

1 Comptroller and Auditor General, *Reorganising central government bodies*, Session 2010–2012, HC 1703, National Audit Office, January 2012.
2 By 'public bodies', we mean central government bodies run outside of core departments, including NDPBs (but not executive agencies).

5 **The Cabinet Office has introduced a system for monitoring the progress and impact of the Programme, but its design and implementation need improvement.** The delayed introduction of the Cabinet Office's framework has meant that:

- a good baseline has not been established from which to track the non-financial effects of the Programme; and
- some departments have not engaged sufficiently well with the process, and returns to the Cabinet Office have been late and inconsistent.

These issues mean that the Cabinet Office needs to carry out more quality assurance of the information provided by departments (paragraphs 2.2 to 2.6).

6 **Our analysis of departments' accounts shows that annual administrative spending reductions achieved since 2010-11 by public bodies have been substantial: an estimated £723 million in 2012-13.** Given the differences in methodologies, our overall figure is comparable with the Cabinet Office figure of £785 million based on unaudited information from departments. The Cabinet Office currently estimates that, over four years, the public bodies in the Programme will reduce administrative spending by at least the original estimate of £2.6 billion. All of these figures include spending reductions not directly related to the Programme. For example, Natural England has been reducing in size since its formation in 2006 and is pursuing further economies mainly in response to HM Treasury's 2010 and 2013 Spending Reviews (paragraphs 2.7 to 2.13).

7 **Some functions of public bodies have moved closer to ministers.** A key aim of the 2010 review was to improve direct accountability by bringing functions closer to elected representatives, and this is being achieved: of the 2009-10 spending by the bodies in the Programme, £20.5 billion (30 per cent) will transfer into departments (i.e. closer to ministers). A further £3.4 billion will be delivered by the private and voluntary sectors. Public accountability requires transparency and, in making these reforms, departments need to manage the risk that existing arrangements for the transparency of public bodies are not adequately replaced (paragraphs 2.14 to 2.19).

8 **More needs to be done to increase the transparency of remaining public bodies.** The Cabinet Office considers that increased transparency is an additional benefit of the Programme and is seeking to measure it. However, a quarter of NDPBs still do not provide public transparency through any of the Cabinet Office's three indicators (annual report, published minutes of board meetings and board meetings open to the public) (paragraphs 2.20 to 2.22).

9 **The Cabinet Office and departments have so far been unable to collect evidence to measure the wider value of reforms.** Departments have produced case studies illustrating the wider value of reforms (for example, improved public services, citizen trust and participation), but these have not yet provided any quantifiable evidence relating to 'public value'. It will be a challenge for the Cabinet Office to reliably attribute any improvements in the quality of public services, for example, to structural reform rather than the many other changes occurring to public services (paragraphs 2.23 to 2.24).

10 **Departments have made slow progress in completing the first round of triennial reviews, and may struggle to deliver the larger round two.** Around two-thirds of NDPBs have been exempted from review in round one, while round two may involve around 450 NDPBs and some departments plan to extend their programmes to cover their agencies and other types of body. However, by December 2013 departments had completed only 30 reviews, covering 77 of the 156 bodies to be reviewed in round one of the programme (2011-12 to 2013-14) (paragraphs 3.8 to 3.10).

11 **Delays in reviews have arisen from insufficient resources and difficulty in agreeing reports internally.** Reviews are taking, on average, over eight months to complete, compared with an expected four to five months. Individual reviews have taken between two months (Great Britain-China Centre) and two years (the Central Advisory Committee on Pensions and Compensation) (paragraphs 3.11 to 3.13).

12 **Four triennial reviews (covering 38 bodies) have led to major structural reform, but reviews can also add value by examining governance, efficiency and effectiveness issues.** The ongoing review programme is intended to maintain the momentum created by the 2010 reforms. However, only four of the first 30 reviews, covering 38 out of 77 bodies reviewed, recommended that the bodies concerned should no longer continue as NDPBs: services provided by 35 probation trusts, which were reviewed as part of the 'Transforming Rehabilitation' initiative, are to be delivered by the private and the voluntary sector; one small advisory body (Equality 2025) was abolished; and two other bodies were reclassified. Although 25 of the other 26 reviews recommended improvements to governance arrangements, reviews have tended not to make explicit recommendations on achieving savings or improving performance. The Cabinet Office's new guidance will encourage departments to identify areas for performance improvement and efficiency savings (paragraphs 3.20 to 3.23 and 3.26).

13 **There are differing views on the most appropriate interval between reviews of public bodies.** The Cabinet Office's new guidance for round two retains a three-year cycle to provide a discipline on departments and to ensure accountability to ministers for the review programme. However, most departments and NDPBs we consulted believed that reviewing bodies every three years does not allow time for recommendations from previous reviews to take effect and that little may have changed between reviews. The Cabinet Office's intention to be more involved in the setup of round two reviews should provide an opportunity to facilitate reduced-scope reviews where appropriate (paragraph 3.14 to 3.15).

14 **The Cabinet Office is not yet in a position to assess the value for money of the triennial review programme in the longer term.** There is no process for tracking the costs and benefits of the reviews and their recommendations, and the Programme's objectives and success criteria are not specifically linked to the review programme. To increase the value of reviews, the Cabinet Office plans to allow departments greater flexibility over the scope of future reviews and to encourage more 'cluster reviews' which examine several bodies, enabling departments to deliver the increased coverage of NDPBs expected in round two (paragraphs 3.24 to 3.26).

Conclusion on value for money

15 For the Programme to be value for money, the Cabinet Office and departments need to complete the reforms, to achieve the expected benefits and to have ongoing review arrangements that embed continuous improvement. Progress in completing reforms has been good, representing a major simplification of the public bodies landscape, and there have been substantial reductions in the administrative spending of public bodies, broadly in line with the reductions estimated by the Cabinet Office. However, there has been insufficient emphasis on managing the benefits of the Reform Programme to ensure that they are optimised. Having had a limited impact so far, the triennial review programme, as well as facing resourcing issues, needs to provide greater challenge so that it maintains the momentum created by the initial reforms. The Cabinet Office is aware of these issues and recognises that it needs to address them for value for money to be achieved in the longer term.

Recommendations

16 For the Cabinet Office:

a **The Cabinet Office should review the measures it uses to assess the impact of the Reform Programme:**

- Financial impacts relating directly to reforms should be identified where possible and measured consistently.
- It should identify whether the impact of reform on accountability can be assessed using any additional metrics or research.
- Evaluating the wider public value is likely to require more focused analysis of some individual reforms.

b **The Cabinet Office should review and agree departments' strategies and delivery plans for their own triennial review programmes in 2014-15.** In order to deliver the ambitious programme of triennial reviews planned for 2014 to 2017, departments must produce a strategy and a detailed delivery plan for their programme, and for which they are held accountable.

c **The Cabinet Office should improve its information on the resource cost of the triennial review programme.** This could be based initially on target costs for different types and sizes of review, and strengthened by requiring departments to estimate the resources applied to each review. The Cabinet Office could then take corrective action if costs are disproportionate.

d **The Cabinet Office should consider the most appropriate interval between reviews of public bodies.** If the current interval is maintained, there needs to be greater flexibility in the size and scope of individual reviews, including reviews that span multiple bodies with related purposes or activities, as well as better integration of the reviews with other organisational reforms planned by departments.

17 For departments:

e **Departments should improve the quality and timeliness of information they provide to the Cabinet Office.** Greater effort should be made to provide the Cabinet Office with detailed information, especially regarding forecast reductions in administrative spending and the estimated resource cost of triennial reviews. Public bodies should be consulted on information provided to the Cabinet Office to check for accuracy.

f **Departments should encourage their public bodies to strengthen the transparency of their operations and assess progress through the triennial review process.** Transparency can be achieved through the Cabinet Office's three indicators of transparency, as well as by other means.

g **Triennial review reports should include assessments of the expected costs and benefits of the recommendations.** This will enable bodies to evaluate recommendations and allow the overall value for money of the review programme to be assessed.

Part One

The public bodies landscape

1.1 Various kinds of public bodies operate at 'arm's length' from government ministers, rather than within traditional departments. The term 'public body' covers a wide range of types, such as executive agencies, non-departmental public bodies (NDPBs) and non-ministerial departments.

1.2 The Cabinet Office oversees the public bodies landscape. Its Public Bodies Reform team provides support and guidance to sponsor departments in relation to the creation, governance and closure of public bodies. The Cabinet Office relies on departments to adhere to its guidelines and to establish appropriate and robust sponsorship arrangements. Its Public Bodies Reform team works with departments to improve the effectiveness of the oversight of bodies and has introduced a sponsorship competency framework. Since 2010, other teams within the Cabinet Office must approve a wide range of administrative spending proposed by departments, agencies and NDPBs to reduce unnecessary and poorly coordinated public spending.

The Public Bodies Reform Programme

1.3 After the 2010 General Election, departments, overseen by the Cabinet Office, reviewed 904 public bodies and their functions. The Public Bodies Reform Programme (the Programme) is intended to reduce the number and cost of public bodies, and to make them more accountable to elected representatives. Departments assessed each body – firstly against whether the functions it delivered were still necessary, and secondly against whether any continuing functions should be undertaken at arm's length from government.[3]

1.4 More recently, the Cabinet Office introduced a programme of triennial reviews, which requires departments to review each of their remaining NDPBs at least once every three years, with the intention of embedding reform as an ongoing process.

3 To continue as an NDPB a body must meet one of three tests: 1) Does it perform a technical function? 2) Do its activities require political impartiality? 3) Does it need to act independently to establish facts?

1.5 We carried out an examination of the early stages of the Programme and reported on this in January 2012.[4] We identified a need to strengthen the measurement of the intended benefits. In March 2012, the Committee of Public Accounts called on the Cabinet Office to provide more accurate estimates of expected savings and implementation costs and to develop measurable objectives.[5] Appendix Three details those recommendations and the government response to them.

1.6 This report examines progress made in transforming the public bodies landscape, the Cabinet Office's measurement of the impact and success of the Programme, and the early experience of the triennial review programme. It draws on evidence from a range of methods, including analysis of Cabinet Office and departmental data and four case study departments, including a number of reforms and triennial reviews within their departmental family. A detailed explanation of our methods is given in Appendices One and Two.

Progress in reforming public bodies

1.7 The Programme has resulted in significant rationalisation of the public bodies landscape. Assuming all reforms are completed as currently planned, 306 of the 904 public bodies reviewed in 2010 will have been abolished or merged into another body by 2015, an increase from the 262 body reduction proposed in 2010. By the end of 2013, the overall number of bodies had been reduced by 283 through abolition and merger, representing 92 per cent of the 306 body reduction planned.[6] The Cabinet Office measures the Programme's progress by the number of bodies completing abolition or merger, of which 349 bodies out of the planned 375 (93 per cent) had been reformed by the end of 2013. Overall this represents the largest restructuring of the public bodies landscape for decades (**Figure 1** overleaf). Some of the reforms proposed in 2010 have been delayed due to unexpected policy developments or legal challenges, such as with the Independent Living Fund.

1.8 Departments have made the most significant progress in reforms involving abolition of bodies and transfer of functions (**Figure 2** on page 13), such as the transfer of all the functions of the Child Maintenance Enforcement Commission into the Department for Work & Pensions (**Figure 3** on page 14). Less progress has been made in completing the reforms of bodies retaining their current status, with only 76 out of 190 reforms completed by the end of 2013. Most of the outstanding reforms are of the 107 internal drainage boards to improve their governance.

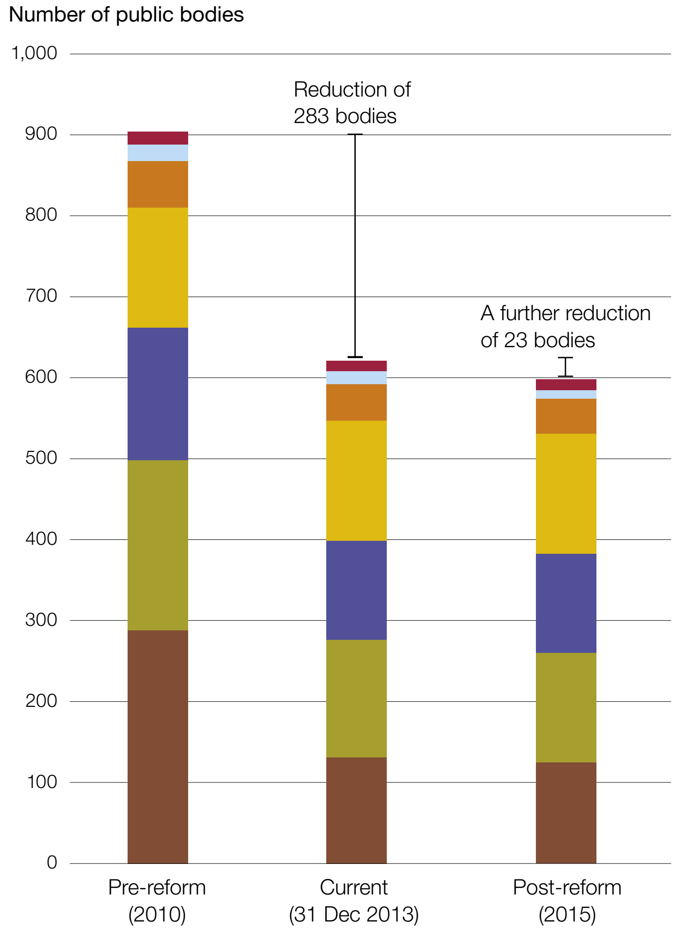
1.9 The Public Bodies Act 2011 is the primary legislation underpinning many of the reforms. The Act allows ministers, through secondary legislation, to abolish or make certain changes to 285 public bodies listed in the Act, subject to consultation and parliamentary scrutiny. Any secondary legislation has to be laid by autumn 2016, adding to the urgency for departments to progress their reforms.

4 See Footnote 1.
5 HC Committee of Public Accounts, *Reorganising central government bodies*, Seventy-seventh Report of Session 2010–2012, HC 1802, April 2012.
6 The reduction of 283 bodies comprises 184 abolitions (of a planned 202) plus a reduction of 99 bodies through mergers (out of a planned reduction of 104 bodies).

Figure 1

Reduction in the number of public bodies within the Programme

The 2010 Reform Programme will reduce public bodies by 306 to 598 by 2015. As at 31 December 2013, there were 621 bodies in the Programme.



	Pre-reform (2010)	Current (31 Dec 2013)	Post-reform (2015)
Non-ministerial department	16	13	13
Tribunal NDPB	20	16	11
Other (this includes ombudsmen, National Park Authorities and HM inspectorates)	58	45	43
Independent monitoring board	148	148	148
Internal drainage board	164	123	123
Executive NDPB	210	145	135
Advisory NDPB	288	131	125

Notes

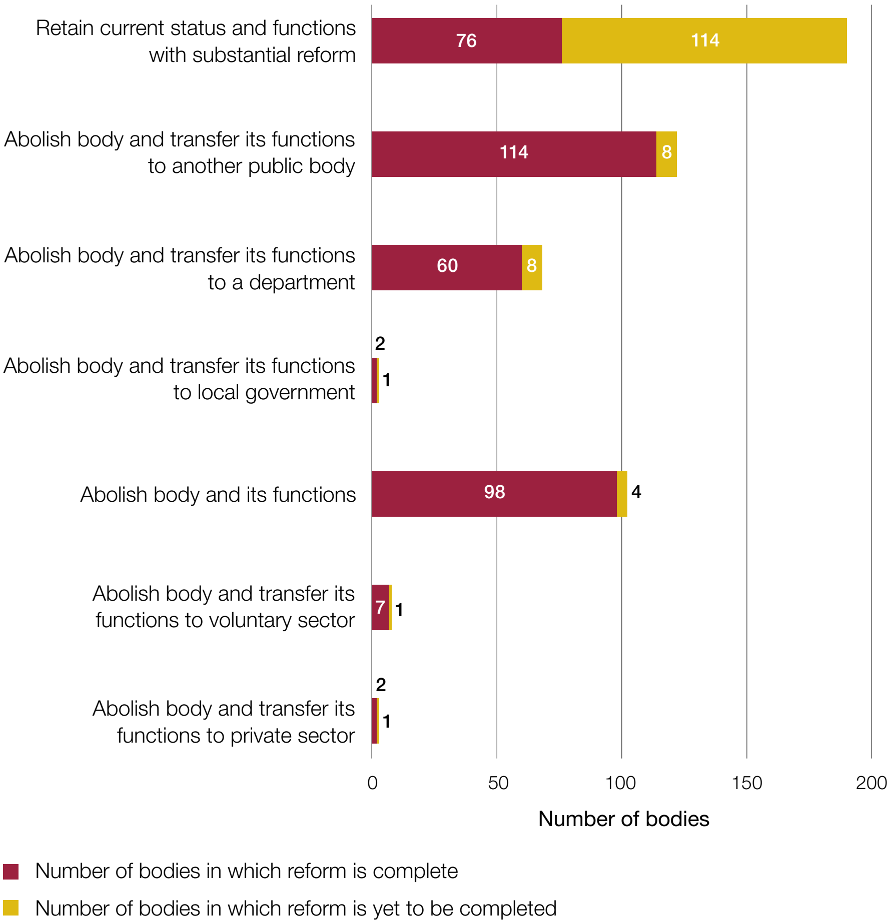
1 The Programme examined the vast majority of public bodies, and did not include all non-ministerial departments or executive agencies.

2 NDPB = Non-departmental public body.

Source: National Audit Office analysis of Cabinet Office data

Figure 2
Completion of proposed reforms by December 2013

The most significant progress has been in reforms involving abolition of bodies and transfer of their functions



Notes

1 The 114 bodies retaining their status with substantial reform yet to be completed includes 107 internal drainage boards.

2 We have analysed the planned mergers of 173 bodies (of which 165 are complete) into 69 bodies as: 104 abolitions and transfer of functions to another public body plus 69 bodies retaining their current status with substantial reform.

Source: National Audit Office analysis of Cabinet Office data

Figure 3
Examples of significant public body reforms in the Programme

Public body in 2010	What has happened	Benefits claimed
British Waterways	Reform of British Waterways saw the transfer of functions to the newly formed charitable trust, the Canal and River Trust (CRT)	No administrative spending reductions, but the CRT is expected to benefit from charitable giving and increased income through its investment portfolio
Homes and Communities Agency (HCA)/Tenant Services Authority (TSA)	The TSA was abolished and functions transferred to the HCA, which itself underwent substantial reform	Forecasts of £130 million in administrative spending reductions. Social housing providers now engage with a single agency
Regional Development Agencies (RDAs)	The eight RDAs were abolished on 31 March 2012, with Local Enterprise Partnerships (LEPs) tasked with carrying out some of their functions	Estimates of £724 million in administrative spending reductions as well as reductions in programme and capital spending. LEPs aim to be more accountable to local people and businesses
Child Maintenance and Enforcement Commission	Abolished on 31 July 2012 and child support functions transferred to the Department for Work & Pensions	Ministers now directly responsible for the delivery of child support, and although the reform was not undertaken to deliver savings, £61 million in administrative spending reductions are estimated
National Endowment for Science, Technology and the Arts (NESTA)	Reclassified from NDPB to charity	No spending reductions estimated, but NESTA raises external funding

Source: National Audit Office

1.10 The Programme has abolished some bodies with substantial administrative and programme spending, including eight RDAs, education body Becta and the TSA. The Cabinet Office estimates that these abolitions alone will reduce administrative spending by more than £1 billion between 2010-11 and 2014-15. However, most of the bodies proposed for abolition (65 per cent) had no recorded spending in 2009-10. The Programme provided an opportunity to remove unnecessary bodies and de-clutter the landscape. Advisory bodies were a particular focus, representing more than half of the reductions through abolitions and mergers (164 of 306).

Creation of new NDPBs

1.11 Government policy since 2010 has been that new NDPBs should only be created as a last resort, once all other delivery mechanisms have been ruled out. Since May 2010, departments have created five new NDPBs[7] and six independent prison monitoring boards. A further eight bodies that were already in existence have been reclassified as NDPBs – often following changes in some of their functions or mergers with other bodies.

1.12 Since 2010, departments wishing to create a new NDPB have to seek the agreement of the Minister for the Cabinet Office, through the submission of a costed business case which demonstrates that alternative delivery models have been considered. The Cabinet Office does not oversee, or maintain records of, the creation of local bodies, public corporations or public companies (other than those which are NDPBs) as these are outside its policy remit.

Coherence and complexity of the public bodies landscape

1.13 Despite the significant reform that has taken place since 2010, the public bodies landscape remains complex and multi-layered:

- There are more than 700 bodies of multiple types.
- Numerous bodies are classified as being of more than one type, adding complexity. For example, Ordnance Survey is a non-ministerial department with executive agency status operating as a trading fund, while being accountable to Parliament through the Secretary of State for Business, Innovation & Skills.
- Individual departments have organised their arm's-length functions very differently. For example, the Department for Work & Pensions has abandoned the use of executive agencies and has brought those bodies, largely as they are, into the department as business units. By contrast, the Department for Education has merged seven of its executive NDPBs into three new executive agencies.

1.14 As part of its forward strategy, the Cabinet Office intends to provide greater consistency across departments and a clearer stated rationale for bodies' classification, producing a more coherent landscape.

7 Comprising: NHS England; the Office for Budget Responsibility; the Independent Commission for Aid Impact; the National Employment Savings Trust (NEST); and the Social Mobility and Child Poverty Commission.

Part Two

Managing the potential benefits of reform

2.1 The Cabinet Office's primary objective for the 2010 Public Bodies Reform Programme (the Programme) was to achieve increased accountability and administrative savings, while simplifying the public bodies landscape. This part of the report covers:

- the system for managing the expected benefits of the Programme;
- the achievement of administrative savings; and
- the achievement of non-financial benefits.

Has an effective benefits realisation system been developed and implemented?

2.2 To help ensure that the intended objectives of a major programme are achieved, it is good practice to have a system for identifying, tracking and measuring the benefits. We previously reported weaknesses in the defining and tracking of benefits and costs in the Programme. Since then, the Cabinet Office has developed a framework to manage the benefits in four key areas, one financial and three non-financial:

- Increased efficiency – evidenced by the reduction in administration spend over the spending review period (2010-11 to 2014-15), while 'protecting and improving service levels for remaining functions'.
- Increased accountability (through democratically elected structures) – evidenced by the reduction in the number of public bodies, the transfer of functions to democratically elected representatives and the number and outcome of triennial reviews.
- Increased transparency – evidenced by improved publication of information on public bodies, and increased public access to meetings, minutes and annual reports.
- Wider public value (improved public services, citizen trust and participation) – evidenced through case studies and surveys.

2.3 For its benefits realisation system to be effective, the Cabinet Office needs complete, consistent and reliable figures from departments, including a clear baseline position to measure changes against. It also needs to validate the quality of information provided.

2.4 However, the Cabinet Office only started formally collecting non-financial information from departments on the four key areas in March 2013, having consulted with departments on what indicators to measure during the second half of 2012. The delay between the start of the Programme in 2010 and the set-up of a benefits realisation system has meant that the Cabinet Office has not been able to establish a good baseline for the non-financial impacts of the Programme, such as the indicators measuring the transparency of non-departmental public bodies (NDPBs).

2.5 Some departments have not engaged sufficiently with the process, for example with four of the thirteen providing returns containing less than the expected level of detail on spending reductions. Our case study departments told us that they had prioritised their resources on completing the reforms rather than tracking the benefits. Departments also feel less compelled to capture the costs and benefits against the Cabinet Office framework as this is not consistent with their own monitoring and management systems.

2.6 Recognising some of these issues, the Cabinet Office updated its guidance for departments on calculating administrative savings. The Cabinet Office also needed to give sufficient emphasis to quality-assuring information provided by departments. However, it has not done enough and the variable quality of evidence provided by departments could undermine the benefits realisation system. The remainder of this part of the report assesses the quality of the available information.

Achieving and measuring spending reductions through the Programme

2.7 In our 2012 report we noted the Cabinet Office estimate, based on figures provided by departments, was that the administration spending of public bodies in the Programme would reduce by between £800 million and £900 million a year from 2014-15 onwards. On this basis ministers set an ambition of at least £2.6 billion in administrative reductions to be achieved between 2011-12 and 2014-15.

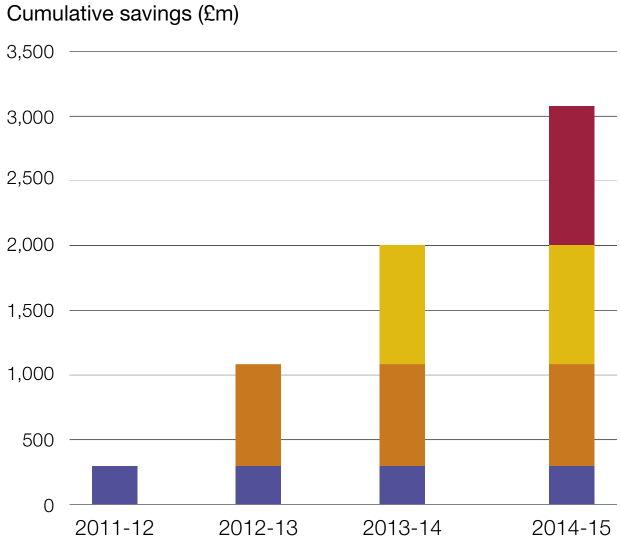
2.8 The Committee of Public Accounts had recommended in 2012 that only administrative cost savings directly linked to structural reform of public bodies should be included in the benefits reported. However, the government rejected this recommendation. Its view was that *all* administrative savings should be included in the reported figures given the need to reduce spending across all bodies and the difficulty of distinguishing between different initiatives. Natural England told us that it had been reducing costs since its formation in 2006 and was pursuing further economies mainly in response to HM Treasury's 2010 and 2013 Spending Reviews rather than the 2010 reforms.

2.9 In 2011, the Cabinet Office introduced a methodology to track overall reductions in administrative spending by arm's-length bodies, adjusting for the estimated implementation costs of reform and the administrative costs of functions transferred to other bodies. It currently estimates that the administrative savings of bodies in the Programme will total around £3.1 billion by the end of 2014-15, compared with its original estimate of £2.6 billion (**Figure 4** overleaf).

Figure 4

The Cabinet Office's estimate of cumulative reductions in administrative spending from the 2010 review to 2014-15 (as at December 2013)

The Cabinet Office currently estimates a reduction of £3.1 billion in administrative spending



	2011-12	2012-13	2013-14	2014-15
2014-15 (estimate)	–	–	–	1,074
2013-14 (estimate)	–	–	921	921
2012-13	–	785	785	785
2011-12	298	298	298	298

Notes

1 All figures are cash spend on administration compared with a baseline of the planned 2010-11 spend inflated by the Treasury GDP Deflator.

2 The 2011-12 total includes the net cost of reforms of £39 million incurred in 2010-11.

3 Estimate is based on departmental monitoring of administrative spending in bodies reviewed in 2010.

Source: National Audit Office analysis of departmental returns to the Cabinet Office

2.10 The Cabinet Office issued improved guidance to departments on the calculation of administrative savings, providing more detail. However, from examining the returns provided by departments, and interviewing senior staff in bodies, we found a number of issues:

- Some major bodies had been excluded from the exercise.
- Departments used data from different sources, including unaudited data from HM Treasury's expenditure information system (OSCAR), while others used unaudited internal reports.
- It was unclear how departments had calculated the costs of transferred functions.
- Some departments provided cost data in a format different from that requested by the Cabinet Office.

- The bodies themselves were not involved in the measurement and reporting process, and some did not recognise the figures being reported to the Cabinet Office.
- Although the Cabinet Office requires departments' returns to be approved by finance directors, it had initially provided insufficient challenge of this data.

2.11 Because of these issues, we used the audited accounts of the main central government departments to estimate the reductions achieved by public bodies in administrative spending since 2010-11. We found that, excluding Department of Health bodies, public bodies spent £2.0 billion on administrative costs in 2010-11, falling to less than £1.4 billion in 2012-13: a reduction of £723 million in real terms (34 per cent). We found that, despite differences in the methods used, the overall savings in administrative costs shown by our accounts analysis were comparable to the Cabinet Office's figures compiled from unaudited departmental returns (**Figure 5** overleaf).

2.12 There are some differences between our figures and those of the Cabinet Office for individual departments (**Figure 6** on page 21). These differences arise from various factors such as: differences in the population of public bodies included in the Cabinet Office estimate and in departments' accounts; departments' accounts differing in what they classify as administrative costs; and the accounting treatment of implementation costs of reforms. In addition, the Cabinet Office monitors reductions in some former NDPB functions after transfer to departments – which cannot be identified from the accounts. Nevertheless, this exercise provides broad assurance that:

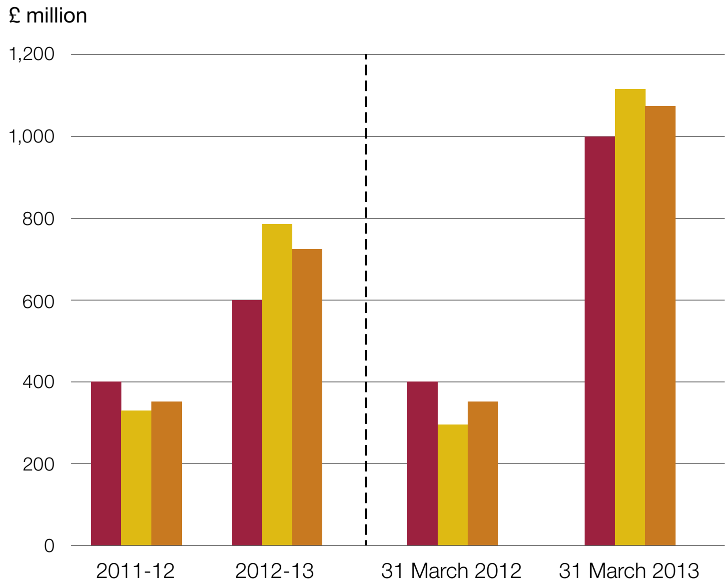
- the overall level of administrative savings currently being reported by the Cabinet Office, based on departmental returns, are being achieved; and
- substantial progress has been made towards the Cabinet Office's original estimate of annual savings on administrative costs – more than £800 million a year by 2015-16, and cumulative savings of at least £2.6 billion over the current spending review period.

2.13 In March 2011, the minister for the Cabinet Office announced that total annual spending through the public bodies included in the Programme (including administration costs, programme expenditure, income and capital) was expected to fall by £11 billion a year by 2014-15 (i.e. four years later). Our analysis of the nearest equivalent accounting measure, the net operating cost, showed a real-terms reduction of £4.6 billion (13 per cent) in the overall spending managed by public bodies and other arm's-length bodies between 2010-11 and 2012-13 (i.e. after two years). There are, however, significant variations between departmental groups (**Figure 7** on page 22). These variances are due to special factors such as the London 2012 Olympic and Paralympic Games, and also the transfer of functions and related expenditure between departments and NDPBs, the creation of new NDPBs and the reclassification of existing public bodies.

Figure 5

Administrative savings by public bodies, 2011-12 and 2012-13

Our analysis of departments' accounts (see Figure 6) compares well with the Cabinet Office's overall estimate for both annual and cumulative savings achieved to date



	Annual savings		Cumulative total	
	2011-12	2012-13	31 March 2012	31 March 2013
Forecast	400	600	400	1,000
Cabinet Office benefits realisation system	330	785	295	1,115
National Audit Office audited accounts	351	723	351	1,075 (rounded)

Notes

1 Annual savings are in comparison to 2010-11 planned or actual outturn spend inflated by HM Treasury's GDP Deflator.

2 To approximate the savings methodology used by the Cabinet Office, we estimated public bodies' cash expenditure by removing non-cash items and income and subtracting the 'core department and agency' subtotal from the 'group' total figures.

3 Departments' consolidated accounts include all major non-departmental public bodies (NDPBs) as well as other types of bodies (for example, Ofcom). Some advisory and other small NDPBs which do not produce accounts are included in core department spending as it is not cost-effective to identify these costs separately.

4 Totals may not sum due to rounding.

Source: National Audit Office analysis of departmental accounts and Cabinet Office data

Figure 6

Administrative savings achieved by departments' public bodies in 2012-13

We confirmed that the administrative savings reported to the Cabinet Office by departmental finance directors were broadly consistent with our analysis of their audited accounts

Departmental group	NDPB and other public bodies' administrative spending 2012-13	Real-terms reduction/(increase) in 2012-13 compared with 2010-11 as shown by:	
		NAO analysis of audited accounts	Cabinet Office figure
	(£m)	(£m)²	(£m)³
BIS	339	250	239
DCMS	257	49	58
DEFRA	211	68	67
DWP	157	78	57
MoJ	138	21	36
DECC	126	-10	6
DCLG	85	60	87
DfE	15	205	184
HO	14	14	14
DfT	11	-11	7
DFID	2	0	–
CO	1	-1	15
HMT	1	-1	–
FCO	0	2	0
Sub total	**1,357**	**723**	**769**
DH²	–	–	16
Total	**1,357**	**723**	**785**

Notes

1 All figures are at 2012-13 prices.

2 The 'audited accounts' estimate compares actual administrative spend as reported in the financial statements in 2012-13 with the (restated) outturn for 2010-11 (which departments normally adjust for major machinery of government changes). Some public bodies' administrative costs are treated as programme costs within departments' audited accounts, resulting in an understatement of administrative savings. Where material adjustments relating to public bodies' administrative spend are identified in the notes to the accounts, these movements have been included. Comparable accounts data are not available for the Department of Health.

3 The Cabinet Office figure compares revenue spend with the planned outturn for 2010-11 using unaudited departmental budget data. This figure includes savings from functions after transfer to agencies and core departments – these are not identifiable from accounts. DFID, HMRC, HMT and MoD did not report any savings to the Cabinet Office. HMRC has no public bodies consolidated in its group accounts. MoD classifies all spending by its public bodies as 'programme' spending within its consolidated accounts.

4 The difference between figures from the NAO analysis and the Cabinet Office are likely to be due to the different methodologies used (paragraph 2.12 and Appendix Two, paragraph 6 to 10).

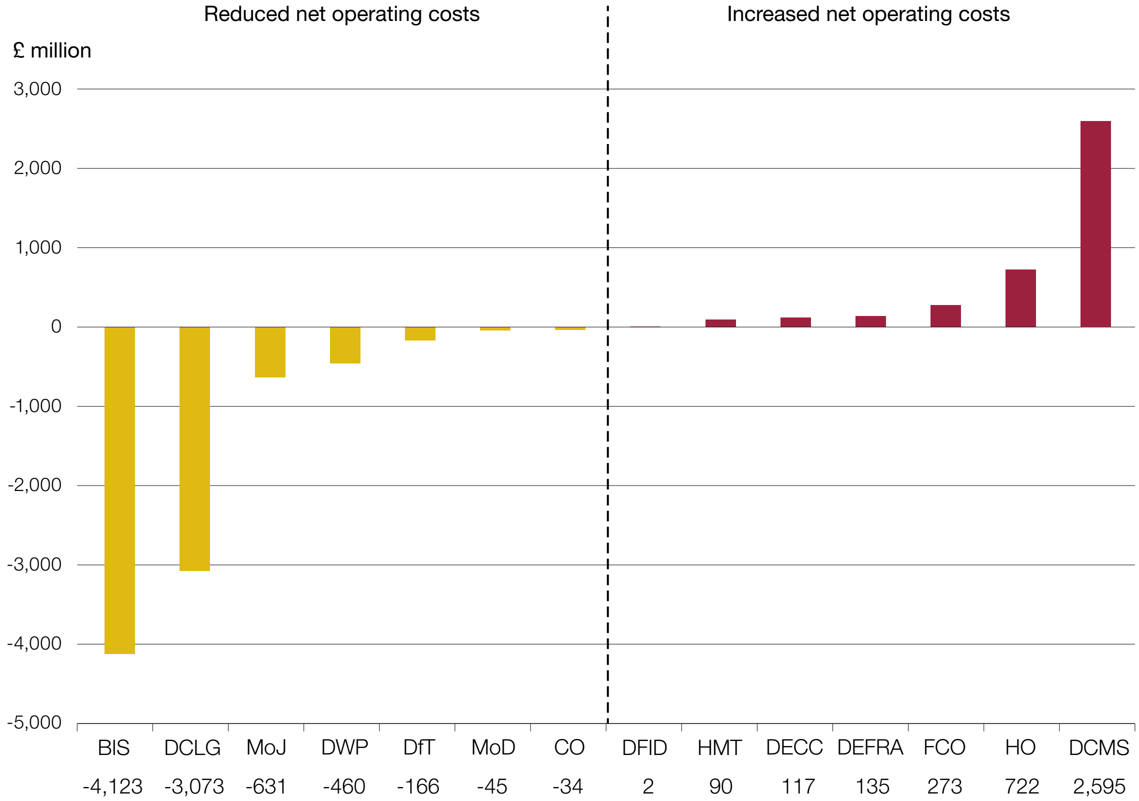
5 BIS = Department for Business, Innovation & Skills; CO = Cabinet Office; DCLG = Department for Communities and Local Government; DCMS = Department for Culture, Media & Sport; DECC = Department of Energy & Climate Change; Defra = Department for Environment, Food & Rural Affairs; DfE = Department for Education; DFID = Department for International Development; DfT = Department for Transport; DH = Department of Health; DWP = Department for Work & Pensions; FCO = Foreign & Commonwealth Office; HMRC = HM Revenue & Customs; HMT = HM Treasury; HO = Home Office; MoJ = Ministry of Justice.

Source: National Audit Office analysis of audited accounts and Cabinet Office data

Figure 7

Change in the net operating costs of public bodies, 2010-11 to 2012-13, by departmental group

Overall, the net operating costs of NDPBs and other bodies has fallen since 2010-11, but there are significant variations between departments



Notes

1 Reductions are in comparison to 2010-11 outturn as restated in departments' 2011-12 accounts, inflated by HM Treasury's GDP Deflator.

2 Accounts figures include both NDPBs and some other types of public body. Figures are not adjusted for machinery of government changes, new public bodies or reclassifications of bodies.

3 Reduction or increases in net operating costs includes changes in income as well as spending.

4 The large increase in DCMS public bodies' spending is mainly due to the 2012 Olympic and Paralympic Games and includes the effect of writing-off the costs of temporary venues and the revaluation of other assets. The FCO figure reflects the inclusion of spending by the BBC World Service from 2011-12 in its programme costs.

5 The Department of Health and Department for Education are excluded as their 2012-13 accounts could not be compared with 2010-11 accounts due to reorganisation and reclassification of bodies. HMRC has no public bodies consolidated in its group accounts.

6 BIS = Department for Business, Innovation & Skills; DCLG = Department for Communities and Local Government; MoJ = Ministry of Justice; DWP = Department for Work & Pensions; DfT = Department for Transport; MoD = Ministry of Defence; CO = Cabinet Office; DFID = Department for International Development; HMT = HM Treasury; DECC = Department of Energy & Climate Change; Defra = Department for Environment, Food & Rural Affairs; FCO = Foreign & Commonwealth Office; HO = Home Office; DCMS = Department for Culture, Media & Sport.

Source: National Audit Office review of accounts

Achieving and measuring non-financial benefits

Accountability

2.14 The Cabinet Office intends that the Programme will make public bodies more accountable to elected representatives by moving them (where appropriate) into departments or out to local government, or by making them accountable to users or stakeholders through charitable status for example. As measures of the accountability improvement, the Cabinet Office counts the number of functions transferred, and the reduction in the number of arm's-length bodies.

2.15 The Cabinet Office identified around 280 functions which were delivered by about 500 arm's-length bodies abolished or reformed by July 2013, including 124 functions that were transferred to improve accountability:

- seventy-two functions transferred to departments: including the functions of the Commission for Rural Communities (see **Figure 8**), and the Child Maintenance and Enforcement Commission;
- forty-three functions transferred to executive agencies, within departments: including the functions of the Legal Services Commission (now the Legal Aid Agency); and the Qualifications and Curriculum Development Agency (now the Standards and Testing Agency of the Department for Education); and
- nine functions transferred to local government: such as the functions of the London Thames Gateway Development Corporation.

Figure 8

Case example: Improved accountability from the abolition of the Commission for Rural Communities

Established as an NDPB in 2006, in 2010 the Commission was identified for closure to remove duplication and improve accountability, and the policy and evidence functions transferred to an enhanced rural communities policy unit within Defra directly supporting ministers. Defra has provided £8 million grant-in-aid over three years to the Rural Community Action Network and the Action with Communities in Rural England. It has also increased its engagement with other local rural and farming groups.

Source: National Audit Office, Department for Environment, Food & Rural Affairs

2.16 As there is no information on the total number of functions carried out at arm's length, either in 2010 or now, it is difficult to understand the scale of these reported benefits. For example, the triennial review of the Environment Agency and Natural England identified 125 functions being delivered by those two bodies alone, while some other bodies perform only one function.[8] It is difficult to establish the practical benefits, for example to improved public trust – because demonstrating a causal link would be challenging. The triennial review programme does, however, provide an opportunity to build a database of the functions of public bodies. Such insight could inform a more strategic approach to triennial reviews, as well as other functions of the centre of government, in the future.

2.17 Once the reforms are complete, accountability for public spending will have changed significantly, bringing functions closer to elected representatives. Of the £69.2 billion spent through bodies in the Programme in 2009-10, by 2015 £20.5 billion will have moved to departments and £0.1 billion moved to local government, whereas £3.5 billion will transfer to the private or voluntary sectors. In contrast, ceasing functions will save £1.8 billion.

2.18 In making these reforms, departments need to manage the risk that existing arrangements for the accountability and transparency of public bodies are not adequately replaced. While bringing a function into a department brings it closer to the control of a minister, it may be more difficult for Parliament to identify and hold accountable officials who manage that function. And where an NDPB's functions are brought into a department or transferred to the private or voluntary sectors, transparency may be reduced if, for example, the publication of annual accounts and performance indicators is discontinued. However, the Cabinet Office considers that bringing a function closer to the control of a minister strengthens the accountability of the body.

2.19 Former NDPB staff we interviewed were generally positive about their experience of their functions moving into departments, welcoming closer working with ministers, senior civil servants and other departments. However, other interviewees argued that the changes in their formal status had brought only minor benefits, as they continued to work as a separate unit with little contact with other department units. In addition, public bodies normally have a board and audit committee providing oversight of the body, functions that will be carried out at a much greater distance where either bodies or their functions are transferred into departments.

8 Department for Environment, Food & Rural Affairs, *Triennial review of the Environment Agency and Natural England*, June 2013.

Transparency

2.20 In 2012, the Cabinet Office identified increased transparency as a benefit of the Programme and has now established a baseline for 2011-12. It will report progress annually, and in 2012-13 found that:

- 63 per cent of NDPBs published an annual report (63 per cent, 2011-12);
- 40 per cent made minutes of board meetings available to the public (41 per cent, 2011-12); and
- 19 per cent held board meetings open to the public (20 per cent, 2011-12).

2.21 The number of NDPBs that met all three measures during 2012-13 was only 71 out of 497 (14 per cent), compared with 86 out of 560 during 2011-12 (15 per cent). The proportion of NDPBs meeting none of these measures remained static at 24 per cent (117 in 2012-13). For 2012-13, the Cabinet Office started including information on non-ministerial departments and executive agencies, so in future years they will be able to be monitored for improvements in transparency.

2.22 The Cabinet Office is also monitoring the number and outcomes of triennial reviews as measures of increased transparency. As reviews are carried out and the reports published, the Cabinet Office considers that the public will better understand the bodies' roles.

Wider public value

2.23 In 2012, the Cabinet Office also recognised that it needed to measure the wider benefits ('public value') of the Programme, for example through improved public services, trust and participation. It aims to do so through case studies proposed by departments and through departments' or public bodies' surveys of their service users or stakeholders. However, only six departments provided any case studies (covering eight reforms) to the Cabinet Office, for example where:

- the transfer of services to local bodies and the voluntary sector which have engaged communities and ensured services are best suited to their needs, and
- where private sector involvement has supported economic growth and provided better value for the public.

2.24 Our assessment of the case studies submitted is that they do not yet provide any quantifiable evidence of improved public value. It will be a challenge for the Cabinet Office to attribute improvements in case studies to the structural reform rather than the many other changes that occurred around the same time. It can also be difficult to obtain a representative evidence base from case studies.

Part Three

Triennial review programme

3.1 A triennial review is a process for reviewing the continuing need, the most appropriate delivery model, and the governance arrangements for non-departmental public bodies (NDPBs). To maintain the momentum of public bodies reform, the Cabinet Office required departments to review all NDPBs at three-yearly intervals from March 2011, unless an exemption is agreed.

3.2 The requirement to carry out triennial reviews applies to executive NDPBs, which often carry out major functions on behalf of departments, and also to advisory NDPBs, tribunal NDPBs and independent monitoring boards, which can involve relatively little expenditure or be largely provided by volunteers. A wide range of major public bodies are not covered by the triennial review programme including: non-ministerial departments (such as the Forestry Commission); executive agencies (for example DVLA); public corporations (such as the BBC), or public service mutuals (such as MyCSP); and local bodies (such as internal drainage boards) or charitable trusts.

3.3 Triennial reviews replaced existing arrangements, in which reviews had become infrequent and which the Cabinet Office considered were not effective. The first round of reviews was expected to examine only 156 of the NDPBs as the rest were exempted, mainly as a result of ongoing work relating to the 2010 reforms. The second round of reviews, commencing in April 2014, will include the majority of NDPBs and some departments plan to extend their programmes to cover other types of public body they sponsor. This will require substantially more resources from sponsor departments to deliver.

Roles and responsibilities and the scope of reviews

3.4 The triennial review programme is directed and owned by the Cabinet Office, while departments manage individual reviews (**Figure 9**). To give departments ownership of their respective programmes, the Cabinet Office took the view that sponsor departments should be solely responsible for the conduct of the reviews while it provided overall programme management and quality assurance. Departments and review team leaders we interviewed considered that the Cabinet Office had provided effective leadership and support. Their involvement was seen as proportionate: senior Cabinet Office staff were involved in all major reviews through membership of a 'challenge group' while participation in smaller reviews was limited, for example, to responding to requests for advice.

3.5 To ensure that reviews were of consistent quality, the Cabinet Office published guidance which set out the scope and purpose of the programme and instructions on the conduct of reviews.[9] The review teams and departmental sponsors we interviewed confirmed that the guidance was helpful and sufficiently comprehensive, although some developed further guidance specific to their department's procedures. The Cabinet Office also produces a range of informal guidance, facilitates a Triennial Review Network Group, which puts departments in touch with others who have faced similar issues, and helps departments to find experienced reviewers.

Figure 9
Roles and responsibilities for triennial reviews

Cabinet Office	Sets objectives, scope and frequency of reviews
	Agrees forward programme with departments, and variations
	Produces principle-based guidance
	Account managers liaise with departmental review teams
	Quality assures through seat on challenge panels, reviewing draft reports and ministerial sign-off
	Publishes forward programme and reports on website
Departments	Agree forward programme and variations with the Cabinet Office
	Put together, oversee and monitor review teams
	Quality assure through setting up challenge group, internal review and ministerial sign-off
	Monitor implementation and follow-up of review recommendations
Public bodies	Contribute to reviews by providing information and views, and sometimes staff resources
	Implement review recommendations

Source: National Audit Office analysis

9 Cabinet Office, *Guidance on reviews of non-departmental public bodies*, June 2011.

3.6 Round one reviews have two main purposes:

- To provide a robust challenge of the continuing need for the NDPB, by examining its key functions, assessing whether it is still required (applying the 'three tests' discipline used for the 2010 Public Bodies Reform Programme (the Programme) and, if so, identifying how best to deliver the functions (stage one).[10]
- Where the NDPB is deemed to be still needed, to ensure that its control and governance arrangements comply with principles of good corporate governance (stage two).

3.7 We reviewed the 30 published reviews to December 2013. All the reviews appear to have followed the Cabinet Office guidance in focusing on the continuing need for the functions, options for their delivery and corporate governance. Unlike the preceding 'business' reviews, triennial reviews have not generally reported on the performance of the body or identified efficiency improvements as these issues were considered to be out of scope by some review teams. Revised guidance for round two of the triennial review programme places more emphasis on identifying efficiency savings and improving performance. Our findings on reviews are summarised based around six key principles identified by the Cabinet Office (**Figure 10**), which successful reviews should be able to demonstrate.

Figure 10

The Cabinet Office's six key principles for triennial reviews

Timely	Reviews should be completed quickly to minimise disruption to the NDPB's business and reduce uncertainty about its future
Proportionate	Scope and resources used should be appropriate for the size and nature of NDPB, and not overly bureaucratic
Challenging	Reviews need to be rigorous and evaluate as wide a range of alternative delivery options as possible
Inclusive	Review teams should consult widely with individual NDPBs, key users and stakeholders and Parliament
Transparent	The start of reviews should be announced and reports be published
Value for money	The overall process should clearly represent good value for money for the taxpayer

Source: Cabinet Office, *Guidance on reviews of non-departmental public bodies*, June 2011

10 These are the same tests as were applied in 2010 – see footnote 3.

Our findings on the Cabinet Office's key principles

a) Timeliness and proportionality of reviews

3.8 In 2011, the Cabinet Office and departments agreed a timetable of triennial reviews for round one (2011-12 to 2013-14). This required departments to review 156 of the NDPBs expected to remain after the 2010 Reform Programme. The Cabinet Office agreed to exempt 298 bodies from review, including: the Ministry of Justice's 47 Advisory Committees on Justices of the Peace (which had undergone merger) and 144 independent monitoring boards (IMBs);[11] all ten Department of Health NDPBs (because of wider health sector restructuring); 26 of the 32 Department for Culture, Media & Sport NDPBs (because of 2012 Olympic and Paralympic Games work); and some types of body (for example, museums) that are on a five-year cycle.

3.9 By December 2013, departments had completed 30 reviews covering 77 NDPBs. A further 34 reviews were under way (covering 47 NDPBs), and reviews covering 32 NDPBs were due to be completed in round one but were not yet announced (**Figure 11** overleaf).

3.10 While departments started more than 90 per cent of the reviews planned for 2011-12 and 2012-13 in the expected year, they have been slow to complete reviews. To avoid prolonged uncertainty, the Cabinet Office expects reviews to take four to five months on average, including no more than three months for stage one.[12] The 30 reviews completed by December 2013 took, on average, more than eight months, with seven taking between 13 and 27 months (**Figure 12** on page 31).[13] In addition, two reviews, by HM Treasury and the Home Office, which started in 2011-12 remained in progress 20 months later.

3.11 These early reviews have taken longer to complete than departments expected despite the majority being reviews of small advisory NDPBs, intended to provide departments with early experience of the process. Departments have been proportionate by carrying out some 'light-touch' reviews for particularly small bodies. However, delays have arisen because it has often taken departments much longer than expected to complete stage two and to finalise draft reports. For example, the report of the two-year review of the Central Advisory Committee on Pensions and Compensation was delayed pending a decision on the Independent Medical Expert Group.

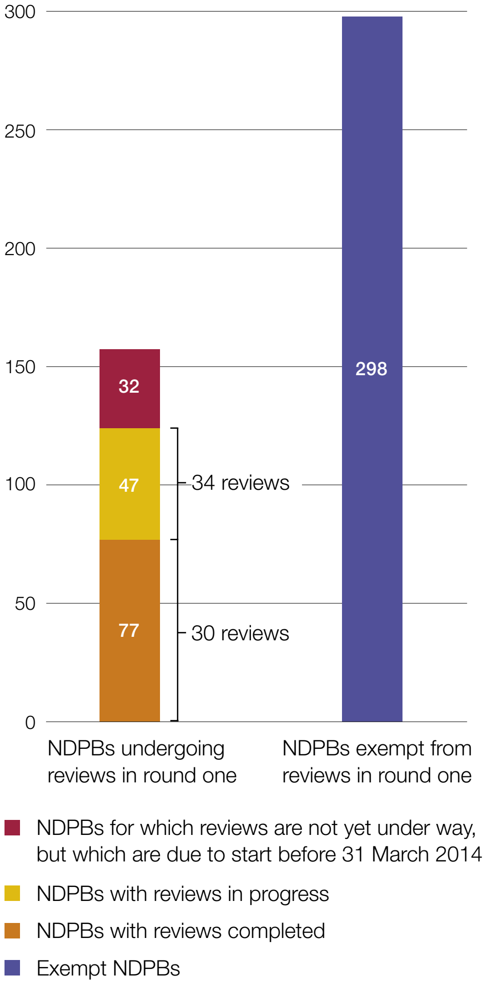
11 Independent monitoring boards are statutory bodies, comprising unpaid volunteers, which monitor the welfare of prisoners and detained persons in prisons and detention centres.

12 The Cabinet Office's guidance set an expectation of three months for stage one, and its master timetable shows 4-5 months of elapsed time expected for a whole review.

13 It took, on average, 12 months to complete the six reviews of large executive NDPBs, five months to complete the four reviews of medium-sized executive NDPBs and eight months to complete the 20 reviews of small advisory NDPBs. In practice, planning work on reviews typically starts several months before the review is announced.

Figure 11
Progress in completing round one reviews

The Cabinet Office expects around a third of NDPBs to be reviewed in round one



Notes

1 As at 31 December 2013.

2 Of the multi-body reviews, three had been completed (covering 50 NDPBs), five are under way (18 NDPBs) and one is planned (four NDPBs).

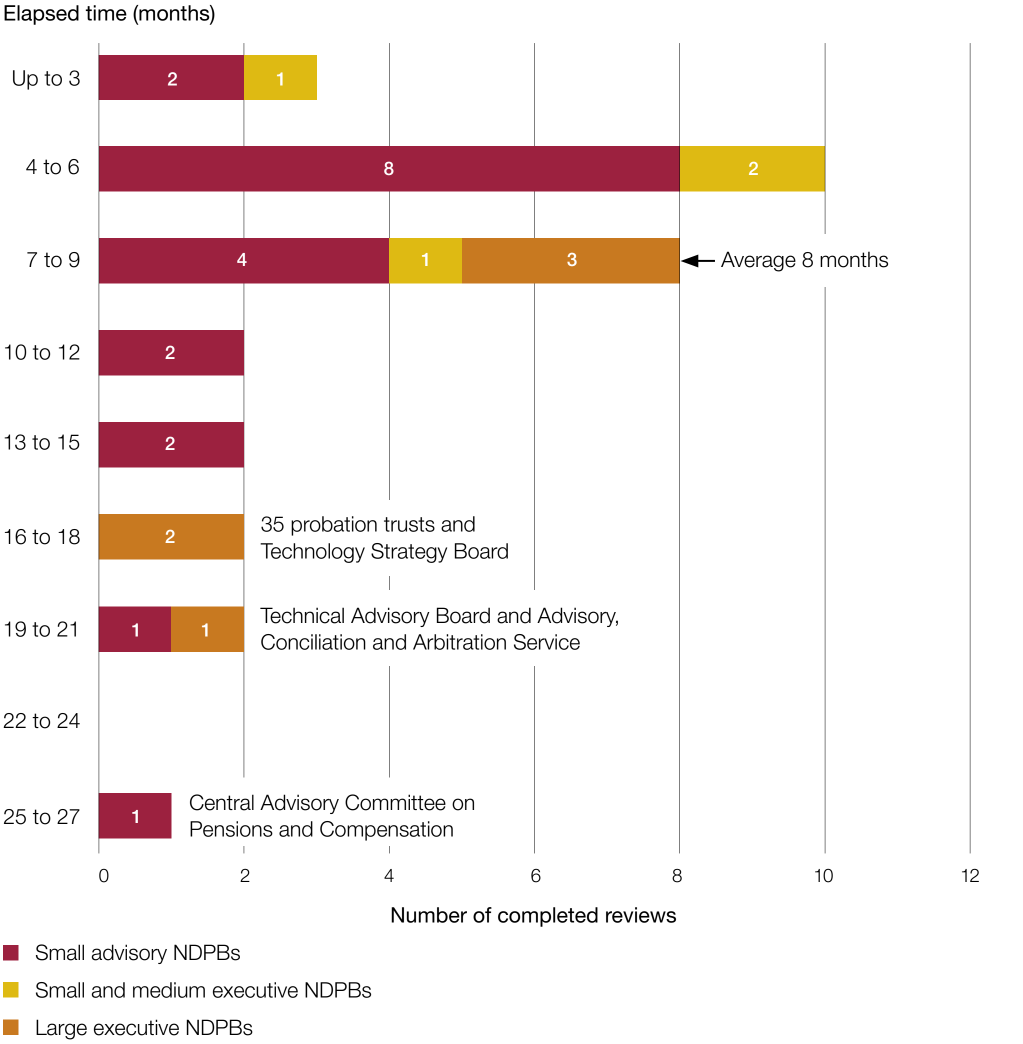
3 The Department for Business, Innovation & Skills (BIS) review of Capital for Enterprise Limited ceased because BIS decided to merge the body within a new Business Bank. The Cabinet Office removed three planned reviews (English Heritage, the Foreign Compensation Commission and the Insolvency Practitioners Tribunal) because of new plans for reform or abolition.

4 Of the 298 exempt bodies, 144 are independent monitoring boards.

Source: National Audit Office analysis of Cabinet Office management information

Figure 12
Time taken to complete reviews

The first 30 triennial reviews each took, on average, more than eight months to complete



Notes

1 The elapsed time is from announcement of the start of the review in a written ministerial statement to publication.

2 'Large' is a public body with government funding of more than £50 million a year and/or more than 200 staff; 'medium' has government funding between £5 million and £50 million a year and/or 50 to 200 staff; and 'small' has government funding below £5 million a year and/or fewer than 50 staff.

Source: National Audit Office analysis of triennial review announcements and reports

3.12 The Cabinet Office monitors the progress of reviews through monthly returns from departments, but it has not been able to ensure that departments complete reviews promptly. Delays in completing reviews can bring uncertainty to bodies and can be disruptive to staff morale and the appointment of board and executive members. To manage this risk, the Cabinet Office allowed the Ministry of Justice to publish its stage one reports on the Law Commission and Youth Justice Board for England and Wales ahead of completion of stage two.

3.13 Resource challenges have also contributed to slow progress on some reviews. Departments have used different models for staffing reviews. For example, Defra has used dedicated full-time teams, while the Department for Business, Innovation & Skills (BIS) uses a pool of staff volunteers who work one day a week on reviews. Defra's four completed reviews (including one substantial review) have each taken an average of five months, whereas BIS's four completed reviews have taken 13 months each. Reviews of large bodies with a number of functions and delivery options have been particularly challenging.

3.14 During round two, departments will face increased resourcing challenges since the number of reviews will treble as bodies exempted from round one fall due for review, potentially along with some executive agencies and other public bodies. The Cabinet Office expects departments to carry out more joint or cluster reviews of several bodies during round two. This has the potential to save resources, but presents challenges. Departments, review leaders and senior staff from NDPBs suggested to us that the Cabinet Office should allow departments greater flexibility on the interval and scope of subsequent reviews. They considered that a perceived 'one-size-fits-all' approach of reviews every three years may be inappropriate for many bodies, as it can take longer than three years for organisational changes to be embedded and little may have changed between subsequent reviews. Reviews could recommend when a body should next be reviewed and what areas this subsequent review should focus on.

3.15 The revised Cabinet Office guidance retains the three-year cycle to provide a discipline on departments and to ensure accountability to ministers for the review programme. It allows departments some limited flexibility for the second round of reviews: enabling bodies reviewed in the first two years of the first round to be reviewed later within the second three-year cycle. The Cabinet Office's intention to be more involved in the set-up of round two reviews should, however, provide an opportunity to facilitate reduced-scope reviews where appropriate.

b) Transparency, challenge and inclusivity

3.16 The Cabinet Office intends the triennial review process to be transparent. The commencement and completion of reviews is reported transparently through written ministerial statements, as required by the Cabinet Office, and review reports are published. However, most reports do not identify the lead reviewer: only ten of the first 30 completed reviews did so.

3.17 Triennial reviews are expected to be challenging, and departments have adopted various approaches to provide challenge and expertise:

- Some review leaders are from outside government and bring valuable sector experience. Most are senior officials in the sponsor department, but independent of the body's sponsorship team. However, some reviews are led by much less experienced staff.
- Review teams normally include representatives of the sponsor team of the body being reviewed, and sometimes from the body itself.
- The Cabinet Office encourages larger reviews to have a challenge group comprising senior officials from the department, a departmental non-executive director and a representative from the Cabinet Office. This group typically meets two to three times, providing scrutiny on the review process and challenge to the review's findings, which is valued by review teams. All eight of the major reviews, completed to December 2013 involved challenge groups. Of the remaining 22 smaller reviews published, three stated that they had used critical friends or a similar group. However, each of the eight reviews we examined had appropriate internal or external challenge arrangements.

3.18 The reviews are intended to be open and inclusive, for example by seeking the views of key stakeholders and users, the department and the NDPB. Depending on the size of the review, teams have secured input from stakeholders through public calls for evidence, writing to key groups, workshops and meetings. The most extensive consultation was on the joint review of the Environment Agency and Natural England, which generated 357 formal responses.

3.19 Departments have varied in how closely they have involved NDPBs in reviews. The Cabinet Office requires review teams to be independent from the NDPB but to engage and communicate meaningfully with senior staff and board members of the NDPB. However, senior staff from some NDPBs told us that they considered their experience and insights had been under-used by reviewers and the reviews had been done 'to them' rather than as a collaborative exercise.

c) Value for money

3.20 For the triennial review programme to achieve good value for money, we would expect it to bring about measurable improvements. Such improvements are likely to come from any resulting structural reforms, changes to governance or other benefits from the process, such as identification of other opportunities for efficiencies or improved engagement with stakeholders.

3.21 Few reviews so far have resulted in structural reform: only four of the first 30 reviews (involving 38 bodies) produced a recommendation to abolish or change the status of the body; and few reviews involving bodies with multiple functions have recommended some of the body's functions be delivered differently (**Figure 13**). Most of the other reviews (25 out of 26) did include some recommendations to improve governance arrangements.

3.22 In part, triennial reviews have so far resulted in limited structural reform because some departments initially carried out less challenging reviews and had already carried out desk-based reviews of these bodies in 2010. Future reviews could lead to greater impact and structural change if they have a sharper focus on efficiency and performance and on delivery options for individual functions in multi-function bodies.

3.23 The stage two recommendations of reviews have focused on ways of improving the effectiveness of boards (18 reviews) on improving financial management and transparency (five reviews), and improving internal controls (three reviews). Some interviewees considered that few reviews so far have provided new insights or identified ways of improving efficiency and effectiveness, and reviews have tended not to make explicit recommendations on achieving savings or improving performance. Some review teams told us there had been a lack of clarity in Cabinet Office guidance on the extent to which a review should and can analyse performance and efficiency. And NDPBs expressed uncertainty about how they should respond to review recommendations. This is not covered in Cabinet Office guidance, but good practice has been emerging for bodies to produce action plans and for departments to monitor their implementation and impact.

Figure 13

The outcome of completed triennial reviews to December 2013

The outcome of most reviews has been to retain the body

	Retain	Abolish and replace with non-NDPB	Reclassify as executive agency	Replace with new public body	Total
Reviews	26	2	1	1	30
NDPBs	40	2	1	35	78

Notes

1 The review of Equality 2025 recommended that the body be abolished and its strategic advisory function be carried out by an alternative method. The review of the Central Advisory Committee on Pensions and Compensation recommended that the body be reclassified as a stakeholder group.

2 The Criminal Injury Compensation Authority is to become an executive agency of the Ministry of Justice.

3 The review of the 35 local probation trusts was part of a wider policy review that recommended creating a new public sector National Probation Service and opening up rehabilitation services to a diverse range of providers.

Source: National Audit Office analysis of triennial review reports

3.24 The cost of triennial reviews to departments (and reviewed bodies) is not known. The Cabinet Office has not required departments to collect and report review costs – which are mainly staff costs – but it expects costs to be kept to the minimum necessary and to be borne from existing resources. The Cabinet Office does expect departments to disclose 'additional costs', such as external consultancy and travel and subsistence. Three of the 30 completed reviews included this information. In two of the cases the additional costs were small, at £4,500 and £13,000, while in the case of the joint review of the Environment Agency and Natural England they amounted to £453,000.[14]

3.25 The Cabinet Office will be unable to assess the value for money of the triennial review programme as it has not set out measurable objectives, targets or formal success criteria specifically for this programme. It does not have a measure or process for tracking the benefits, in particular the savings, arising out of the triennial review programme as distinct from the 2010 Public Bodies reforms or other initiatives. It has received informal feedback through quarterly meetings of the Triennial Review Network Group of departmental leads on reviews, but has no current plans to research the wider impact of the reviews.[15]

3.26 For round two, the Cabinet Office will publish new guidance that seeks to make reviews more flexible and to add value through increased focus on continuous improvement. Departments will be encouraged to identify areas for performance improvement and efficiency savings, and to improve cooperation across government.

14 Comprising £99,000 paid to consultants and additional costs of £210,000 for the Environment Agency and £144,000 for Natural England.

15 The Cabinet Office provides the secretariat for this group.

Appendix One

Our audit approach

1 We examined the progress that has been made on the Public Body Reform Programme (the Programme), which was set out in 2010, and whether the expected benefits of the Programme have been realised through rationalisation of bodies and functions.

2 We organised our work around four key questions:

- How has the public bodies landscape changed?
- What financial and non-financial benefits have been planned and realised by the Programme?
- Is the Cabinet Office providing effective oversight and support?
- Has government established effective arrangements for reviewing the role and functions of public bodies?

3 Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

Figure 14
Our audit approach

The objective of government

The government's objective is to rationalise the landscape of public bodies to remove duplication and waste, resulting in a reduction in administrative spend, while simultaneously increasing the accountability for actions carried out on behalf of the state.

Our study

This study examines the progress that has been made on the government's Public Body Reform Programme, which was set out in 2010, and whether the expected benefits of the Programme have been realised through rationalisation of bodies and their functions to achieve value for money.

Our evaluative criteria

How the public bodies landscape has changed.	Whether financial and non-financial benefits have been realised (and are planned) by the Programme.	Whether the Cabinet Office is providing effective oversight and support.	Whether government has effective arrangements for reviewing the role and function of public bodies.

Our evidence

(see Appendix Two for details)

We examined the landscape of public bodies by:

- Conducting semi-structured interviews with relevant officials in Cabinet Office and third parties.
- Analysing publically available Cabinet Office literature on public bodies.

We evaluated the programme benefits by:

- Conducting semi-structured interviews with relevant officials in our four case study departments and Cabinet Office.
- Analysing departmental benefits realisation management returns.
- Assessing Cabinet Office's validation of departmental returns.

We examined the role and effectiveness of the Cabinet Office in relation to the Programme by:

- Conducting semi-structured interviews with relevant officials in our four case study departments and Cabinet Office.
- Reviewing Cabinet Office's interaction with departments to understand their progress monitoring and sharing of lessons learned.

We assessed the effectiveness of the arrangements for reviewing public bodies by:

- Analysing all triennial reviews published by departments.
- Reviewing information held by Cabinet Office on reviews completed or under way.
- Conducting semi-structured interviews with relevant officials from our case study departments and Cabinet Office.

Our conclusions

In our previous report of central government reorganisations we acknowledged the scale of the Programme, aiming to simplify the public bodies landscape to improve accountability and to achieve financial savings. However, we concluded the Cabinet Office and departments had not done enough by that (early) stage in the Programme to secure value for money. This was primarily because they had not defined the expected accountability benefits and were not able to show the reductions expected as a direct result of the reforms.

This report examines the progress made since our previous report, focusing on the simplification of the landscape, the achievement of benefits, and the introduction of the new triennial reviews of the non-departmental public bodies (NDPBs) that survived the reforms. This report is being published alongside a management report, targeted at departments and the Cabinet Office, setting out how we think that the triennial review programme can be improved, to increase its public value, as it moves forward to round two, starting in 2014-15.

For the Programme to be value for money, the Cabinet Office and departments need to complete the reforms, to achieve the expected benefits and to have ongoing review arrangements that embed continuous improvement. Progress in completing reforms has been good, representing a major simplification of the public bodies landscape, and there have been substantial reductions in the administrative spending of public bodies, broadly in line with the reductions estimated by the Cabinet Office. However, there has been insufficient emphasis on managing the benefits of the Reform Programme to ensure that they are optimised. Having had a limited impact so far, the triennial review programme, as well as facing resourcing issues, needs to provide greater challenge so that it maintains the momentum created by the initial reforms. The Cabinet Office is aware of these issues and recognises that it needs to address them for value for money to be achieved in the longer term.

Appendix Two

Our evidence base

1 Our independent conclusions on the progress of the Programme were reached using evidence collected between August 2013 and December 2013.

2 Our fieldwork comprised:

- Four case study departments, including eight case examples of reforms and recent triennial reviews (described further below – paragraphs 3 to 5);
- Review of the published accounts of 16 departments for 2011-12 and 2012-13 and comparison with estimates of reductions in administrative spending (described further below – paragraphs 6 to 10).
- Consultation with external stakeholders and experts including:
  - Workshops with members of the Association of Chief Executives and with the Public Chairs' Forum to discuss their members' experiences with the reform process and triennial review programmes.
  - Discussions with Jill Rutter of the Institute for Government.
  - Discussions with Professor Matthew Flinders and Dr Katharine Dommett of the University of Sheffield, who were conducting concurrent research on the Programme and triennial reviews.
- Analysis of the published reports for all completed triennial reviews, using a standard template to capture details on: key dates in the review; the composition of the review team and challenge group (where there was one); the reported review methods and key sources of evidence; evidence of interactions with stakeholders and the reviewed body; recommendations of individual reviews; the reported costs; and any reported actions taken to take forward the review recommendations.
- Searches of Hansard and the web to identify written ministerial statements announcing the start and completion of reviews.
- Review of the Cabinet Office web pages on which 2010 reforms and triennial review information and reports are hosted.

- Analysis of Cabinet Office Public Bodies Reform Team materials:
  - **On reforms:** review of the Cabinet Office benefits realisation methodology and guidance to departments; analysis of departmental returns on progress in implementing 2010 reforms; administrative spending, implementation costs and spending on transferred functions; data on transparency and accountability; case examples illustrating the public value of reforms; and analysis of data from *Public Bodies* (*2012* and *2013* editions).
  - **On triennial reviews:** review of published and unpublished guidance for departments on conducting reviews; the lists of reviews expected to start in 2011-12 and 2012-13, as set out in a ministerial statement of 15 December 2011 and in *Public Bodies 2012*; its 'master spreadsheet' setting out expected and actual start and end dates for round one reviews; minutes of Triennial Review Network Group quarterly meetings and of the Public Bodies Reform 'Task and Finish' Group.

Work in case study departments

3 We carried out more in-depth work in four case study departments: the Department for Business, Innovation & Skills (BIS), the Department for Environment, Food & Rural Affairs (Defra), the Department for Work & Pensions (DWP) and the Ministry of Justice (MoJ).

4 Our work in these departments involved:

- interviewing the department's team which had oversight of its public bodies and interacted with the Cabinet Office along with a review of supporting documents (such as their department's triennial review guidance and forward plan);
- for one completed review in each department and one review in progress, interviews with the sponsorship and policy team for the relevant NDPB, the review leader and senior figures in the NDPB, along with a review of supporting papers (such as project plans and lessons learned documents) – to understand how the reviews were conducted, the interactions with the department, stakeholders and the NDPB, the impact of the review and to identify good practice and ways the approach to future reviews can be improved; and
- observing a challenge group meeting for the review of the Health and Safety Executive.

5 We selected these departments because each had completed at least one review and had a review in process (**Figure 15**) and each had oversight of a significant number of public bodies: ten or more in each case. This selection meant that we did not examine departments which had a significant number of public bodies but which had not completed any triennial reviews by November 2013. Nor did we examine departments which had only a small number of public bodies.

Figure 15

Eight case example reviews we examined

Department for Business, Innovation & Skills	Department for Environment, Food & Rural Affairs	Department for Work & Pensions	Ministry of Justice
Technology Strategy Board	Environment Agency/ Natural England	Equality 2025	Legal Services Board
Low Pay Commission	National Forest Company	Health and Safety Executive	Criminal Injuries Compensation Authority

Source: National Audit Office

Review of accounts for 2011-12 and 2012-13

6 To test whether the Cabinet Office was estimating the level of reductions in administrative spending by public bodies accurately, we analysed the audited consolidated accounts for the main government departments. Since 2011-12, departmental accounts have split spending and income into three categories: 'core department', 'core department and agencies' and 'departmental group'. The latter category includes public bodies that departments are required to incorporate in their accounts. These include all major NDPBs, as well as some public corporations and other arm's-length bodies.

7 Each account contains the results for the previous period restated to reflect changes in accounting policies or major changes in the period, for example transfers of agencies between departments. The results for 2010-11 included for comparison in the 2011-12 accounts were restated wherever possible to reflect the spending of NDPBs and other public bodies which were included in accounts for the first time in 2011-12.

8 We excluded the Department of Health as many of its local bodies are not considered by the Cabinet Office to be NDPBs and the major reorganisation and transfer of functions between NHS bodies since 2010 made the analysis too problematic. Excluding the Department of Health is likely to slightly understate our estimate of spending reductions: Cabinet Office estimated Health NDPBs' spending reductions to be £16 million in 2012-13.[16] We also adjusted the Department for Education's 2012-13 accounts to exclude spending by academy trusts which are not NDPBs.

16 The wider health reforms are also estimated to save more in administration costs than they cost to implement – Comptroller and Auditor General, *Managing the transition to the reformed health system*, Session 2013-14, HC 537, National Audit Office, July 2013, para 18.

9 We calculated the real-terms reduction in administrative cash spending by:

- removing all non-cash items, such as depreciation and provisions for future spending;
- removing all income because it can vary significantly from year to year;
- comparing public body spending (see paragraph 6) in 2012-13 and 2011-12 with the restated prior year inflated by the GDP Deflator: HM Treasury's preferred index for measuring changes in the purchasing power of departments' budgets;
- adjusting for major changes in the categorisation of bodies which might overstate the actual reduction in administrative spending; and
- where material adjustments relating to public bodies' administrative spending are identified in the notes to the accounts, these movements have been included in our analysis.

10 We then compared the results with Cabinet Office estimates of the reductions achieved by public bodies. We did not expect a close agreement between the two methods, which are compiled on a different basis:

- The Cabinet Office uses HM Treasury departmental expenditure limit (DEL) data, from which are for budgeting purposes and differ from internationally accepted accounting standards for public reporting.
- The baseline used by the Cabinet Office is the planned budget for 2010-11, whereas our accounts method uses the actual outturn for 2010-11, which in some cases is higher or lower than the budget.
- The Cabinet Office monitors a specific group of public bodies that were reviewed in 2010. We were concerned that the returns from departments on which the Cabinet Office relies were incomplete, with some public bodies excluded. Our accounts method includes all bodies which are consolidated for accounts purposes, including some public bodies that are not monitored by the Cabinet Office.
- Reductions in back-office support to public bodies by the sponsor department are treated within consolidated accounts as reductions in core department spending. Similarly, some reform costs, such as the early departures, may be borne by the core department rather than the body.
- The Cabinet Office continues to count reductions in public bodies' spending after they have been reclassified as agencies or as core department bodies. The published accounts do not allow such reductions to be identified.
- The Cabinet Office system is also able to estimate the running costs of individual functions transferred and the capital costs of reforms, which are not identifiable from accounts. However, we found that this information was generally not provided to the Cabinet Office by departments.

Appendix Three

Recommendations from the previous NAO and PAC reports on public bodies reform and the government response

NAO recommendation	PAC recommendation	Government response
The Cabinet Office should develop a robust methodology to confirm the £2.6 billion savings resulting from the Public Bodies Reform Programme at the end of 2014-15.	The Committee of Public Accounts (PAC) had substantial concerns about the robustness of the government's claimed £2.6 billion administrative savings from closing bodies by the end of the Spending Review period. It welcomed the Cabinet Office's commitment to 'rebase' its administrative savings estimate and provide a revised savings figure. The Committee recommended that only genuine administrative savings should be included to avoid claiming savings from cuts to service levels. (PAC Recommendation 1).	The government disagreed with the recommendation that departments should count only administrative savings, but agreed with the remainder of the recommendation. Departments were asked to verify original savings estimates, paying particular attention to the cost of delivering transferred functions, and the costs associated with reform. The Cabinet Office stated it will work with departments to refine estimates further.
The Cabinet Office should require departments to show that they have considered all likely transition costs. Among other sources, they should draw on the NAO's published guidance on data validation and costing.	The Committee recommended that departments should provide more complete estimates of the transition costs associated with closing bodies, such as redundancy and pension costs. The Cabinet Office needs to ensure more work is done to identify and fully account for transition costs (PAC Recommendation 1).	The government agreed that ongoing work to refine initial estimates for the cost of reforms should continue. The Cabinet Office has factored in detailed estimates of costs provided by departments into a headline estimate cost of structural reforms. The Cabinet Office will refine its estimate further and undertake further assurance work to verify the original estimates.
The Cabinet Office should use its overall coordinating role to promote good practice and knowledge of pitfalls more promptly. Examples from which others might benefit should be sought.	The Committee concluded that departments have been left to decide on the form of individual reorganisations without clear central direction, at the expense of overall coherence across government. The Cabinet Office should give a stronger lead to departments and set out defined criteria to clarify appropriate structures to be adopted (PAC Conclusion and Recommendation 2).	The government disagreed that a clear central direction was lacking. The government believed that the approach, whereby the Cabinet office plays a dual coordination and scrutiny role with departments, strikes the correct balance.
	The Cabinet Office had not fully got to grips with managing the overall Programme including key risks common to all departments. Clear guidance should be provided on handling common risks and issues. Departments should be challenged on their progress (PAC Conclusion and Recommendation 3).	The government agreed with the recommendation regarding common risks and implemented it. The Cabinet Office, via the Public Bodies Strategy Board and Working Group, shares risk registers and discusses mitigating actions within departments. The Cabinet Office has established sub-groups on specific issues and facilitated workshops at key points in the Programme.

NAO recommendation	PAC recommendation	Government response
The Cabinet Office should work with departments to develop measures to evaluate intended benefits of the Programme and provide explanations of the mechanisms put in place.	The Committee concluded it was not clear how the Cabinet Office or others would judge the overall effectiveness of the Programme. The Cabinet Office should develop and publish a clear set of measurable objectives against which it and others can assess the effectiveness of the Programme, and of moving services to other organisations. Those objectives should be incorporated into the evaluation criteria for triennial reviews (PAC Conclusion and Recommendation 5).	The government agreed with the Committee's recommendation and work was carried out to identify all potential benefits arising from the Programme. The Cabinet Office has published a benefits realisation framework which enables departments to define, measure and optimise all forms of value created. The triennial review process will be sufficiently comprehensive to ensure that intended benefits are reflected in the review.
	The Committee concluded that departments must secure best value for money from the sale or transfer of abolished bodies' assets. The Cabinet Office must set out in more detail what steps it is taking to extract the best value for money and departments must provide clear information on proceeds of asset sales arising from closures of bodies (PAC Conclusion and Recommendation 4).	The government disagreed with this recommendation and stated that clear guidance for accounting officers on securing best value for money on the sale/transfer of assets is already in place – HM Treasury guidance and *Managing Public Money*. The Cabinet Office's implementation checklist states that departments must seek best value for money in terms of existing contracts and managing assets across the departments.

Source: Comptroller and Auditor General, *Reorganising central government bodies*, Session 2010–2012, HC 1703, National Audit Office, January 2012; HC Committee of Public Accounts, *Reorganising central government bodies*, Seventy-seventh Report of Session 2010–2012, HC 1802, April 2012, and HM Government, *Government responses on the Seventy-fifth, the Seventy-seventh, the Seventy-ninth to the Eighty-first and the Eighty-third to the Eighty-eighth Reports from the Committee of Public Accounts: Session 2010–12*, Cm 8416, July 2012.

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